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SUBJECT: Honduran Textile Sector Gives CAFTA High Marks

1. (SBU) Summary: Jesus Canahuati, President of the Honduran Manufacturers Association, was effusive about the content of the textiles chapter of the recently negotiated CAFTA. He identified three areas in particular which are positive developments for Honduras: 1) cumulation with Mexico, 2) the single transformation rule of origin for certain items, and 3) the provision that CAFTA tariff rates would be applied retroactively to January 1st, 2004. He is also pleased with the expanded short-supply provisions and the revised mechanism for qualifying for short supply, while he accepts the lack of trade preference levels (TPLs) for Honduras as a necessary sacrifice if the agreement is to be ratified by the U.S. Congress. End Summary.

2. (SBU) On December 23rd, EconOff spoke with Jesus Canahuati to discuss his views of the textiles chapter of the recently negotiated CAFTA. Canahuati is the President of the Honduran Manufacturers Association (formerly known as the Honduran Maquila Association), and the owner and manager of one of Honduras' largest maquilas. He is also the brother of Honduran Ambassador to the United States Mario Canahuati, and Vice President of COHEP, the private sector umbrella organization. Canahuati said he was extremely pleased with the agreement, and while the Honduran negotiators did not get everything they wanted, Canahuati believes that they got enough to place the Honduran textile industry on a secure footing heading into 2005 and the lifting of worldwide textile quotas.

3. (SBU) In particular, Canahuati identified three major aspects of the agreement which will be beneficial for the Honduran textile industry. First: cumulation with Mexico, which Canahuati said will encourage integration of the industry within the hemisphere. Second: the granting of a single-transformation rule of origin for brassieres, boxer shorts and pajamas. Canahuati said this will be especially important for Honduras in the case of brassieres, which can be made up of 16 different components and are difficult to source under a yarn-forward regime. And third: the provision that CAFTA tariff rates would be applied retroactively to January 1st, 2004, which will allow greater confidence in making sourcing decisions now for production in 2004.

4. (SBU) Canahuati also voiced his satisfaction over the expanded short supply provisions, and the proposed mechanism for qualifying for short supply. He acknowledged that some in Central America have been frustrated with the slow and complex functioning of the existing short supply mechanism, and as a result are uncertain whether the new mechanism will truly be an improvement. But for Canahuati, the simplified mechanism, particularly the shortened time-frame, and the fact that the mechanism takes into account the volume of a good required in determining whether a product qualifies for short-supply, is a significant improvement. He said that the region's textile producers should give it a chance and trust that it will work in practice.

5. (SBU) Canahuati voiced no regret over the near-absence of tariff preference levels (TPLs) in the agreement, saying that he recognized the political unpopularity of TPLs in the United States, and accepted the absence of TPLs as a necessary price to pay in order to improve the chances of CAFTA being ratified by the U.S. Congress. He also stated that TPLs were not an essential requirement for the Honduran textile industry, which relies on locally sourced goods to a much greater extent than, for example, the industry in Guatemala.

6. (SBU) Comment: The Honduran private sector, as expected, is rallying quickly around the cause of selling the benefits of CAFTA. The available information suggests that the textile chapter will be particularly beneficial in Honduras, where progress is already being made in developing a knit textile sector, brassieres and other undergarments are big business, and production could quickly expand to include higher-value woven products like blue jeans if cumulation with Mexican fabric becomes a reality. The maquila sector has been one of the most important sources of employment in Honduras in recent years, and has an extremely close,

symbiotic relationship with the U.S. sector. We expect the influential textile and apparel sector here to be a constructive force in pushing for rapid Honduran ratification of the agreement, once it is signed. End comment.

Pierce